

NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION 1775 Duke Street, Alexandria, VA 22314

DATE: April 2010 **LETTER NO.:** 10-CU-05

TO: Federally Insured Credit Unions

SUBJ: State of the Credit Union Industry as of December 31, 2009

ENCL: Financial Trends in Federally Insured Credit Unions
January 1 – December 31, 2009

Dear Board of Directors:

Enclosed is a report analyzing credit union financial trends for 2009. This report is intended to provide you with detailed information about risks that NCUA will continue to focus on in 2010.

The credit union industry remains sound; however, the current economic volatility continues to have an adverse impact on a majority of the financial trends. Credit risk remains a crucial issue for credit unions and will be closely monitored by our field staff. Delinquency and loan losses continue to increase, especially in the real estate sector. The credit quality of loans will remain an ongoing concern due to the weakened real estate market.

Interest rate risk and liquidity risk are also closely monitored and will continue to be emphasized by NCUA. The loan growth noted in 2009 continued to be from the real estate sector. The majority of these loans are long-term fixed-rate first mortgages primarily funded with higher-cost share accounts and short-term borrowed funds. This has been a consistent trend over the last several years, but it cannot be sustained. As interest rates begin to rise, sound management of interest rate risk and liquidity risk will be critical to credit unions' survival.

At the same time, concentration risk is a growing concern. We recently issued guidance to all NCUA staff and the credit union industry in an effort to mitigate the risks of excessive concentration in any type of asset.

Thank you for your cooperation in submitting your financial and statistical data in a timely manner.

Sincerely,

/S/

Debbie Matz
Chairman

Enclosure